

OPEN MEETING ITEM

ORIGINAL 415

Arizona Corporation Commission
CARL J. KUNASEK
CHAIRMANJIM IRVIN
COMMISSIONERWILLIAM A. MUNDELL
COMMISSIONER

DOCKETED

SEP 22 2000



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ARIZONA CORPORATION CO

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MEMORANDUM

TO: Chairman Carl J. Kunasek
Commissioner Jim Irvin
Commissioner William A. Mundell

FROM: Mark Sendrow *MS*
Director of Securities

DATE: September 19, 2000

RE: Calumet Slag, Inc. et al. (S-03361A-00-0000); Proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same re: Jeffery G. Crawford

CC: Brian C. McNeil, Executive Secretary

AZ CORP COMMISSION
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RECEIVED

Attached is a proposed Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same ("Order") against respondent Jeffery G. Crawford ("Crawford") in the matter of Calumet Slag, Inc., *et al.* The Order requires Crawford to cease and desist from further violations of the Arizona Securities Act, pay restitution in the amount of \$400,000, and pay a subordinated administrative penalty of \$15,000.

Commencing in approximately 1994, Crawford participated with other named respondents in raising investment funds for an Arizona company known as Calumet Slag, Inc. ("Calumet"). Calumet was ostensibly formed to extract precious metals from a slag pile located in the Black Hills of South Dakota, and its principals soon began raising funds through the sale of Calumet Stock to a number of investors. Neither Crawford nor the Calumet securities were ever registered with the Securities Division.

The sale of Calumet stock by the principals of Calumet was fueled by references to a number of assay reports allegedly taken from the South Dakota slag pile. Other than the assay reports that purportedly forecast huge returns, little other information was provided to potential investors. For instance, written disclosures about the company, Calumet financial information, and evaluations as to risk were routinely withheld from investors. By 1999, at least \$580,000 in investments had been raised for Calumet from approximately 180 investors. Despite this influx of capital, the slag pile remains unprocessed and Calumet has no other material assets.

Crawford resigned from his position as an officer and director of Calumet in approximately 1998. By the time of his resignation, Crawford had participated in numerous Calumet sales presentations, and had played an active role in the promotional efforts for Calumet. Records and subsequent disclosures show that Crawford was involved, either directly or indirectly, in the sale of approximately \$400,000 worth of Calumet stock. Despite Crawford's role in generating these investor funds, financial records indicate that Crawford retained only a minor amount of these funds for his personal use. The majority of these investor funds were ultimately remitted to respondent Patton.

The Order finds that Crawford offered or sold unregistered securities, offered or sold securities without the requisite registration, and made material misrepresentations to investors by exaggerating the intrinsic value of the Calumet slag pile. Additionally, the Order finds that Crawford was responsible for material omissions by failing to disclose pertinent information to investors concerning the status of Calumet Slag and the use of investor funds for the project.

The Order requires Crawford to cease and desist from any further violations of the Securities Act, to reimburse investors on account of his involvement with Calumet by paying restitution in the amount of \$400,000, and to pay administrative penalties in the amount of \$15,000 for his violations of the Arizona Securities Act. The administrative penalty is subject to a reduction to \$7,500 once full restitution has been made.

The Division recommends this Order on the grounds that it requires Crawford to reimburse investors for all investor funds Crawford generated during his involvement with the Calumet operation, and it assesses an additional administrative penalty to deter such future conduct. This Order does take into consideration the fact that Crawford did not retain the majority of the investor funds raised during his involvement with the Calumet project.

Originator: Jamie Palfai

AG Assigned: Jennifer Boucek

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK

Chairman

JIM IRVIN

Commissioner

WILLIAM A. MUNDELL

Commissioner

In the matter of

CALUMET SLAG, INC.,

an Arizona corporation

13433 N. 16th Avenue

Phoenix, Arizona 85029

GARETH N. PATTON

23769 Blue Lead Mountain Road

Hill City, South Dakota 57745

JEFFERY G. CRAWFORD

1822 N. Barkley

Mesa, Arizona 85203

MATTHEW E. HUNZINGER

13031 N. 59th Drive

Glendale, Arizona 85304,

Respondents.

DOCKET NO. S-03361A-00-0000

DECISION NO. _____

**ORDER TO CEASE AND DESIST,
ORDER FOR RESTITUTION,
ORDER FOR ADMINISTRATIVE
PENALTIES AND CONSENT TO
SAME BY RESPONDENT
CRAWFORD**

I.

INTRODUCTION

Respondent JEFFERY G. CRAWFORD ("CRAWFORD") elects to permanently waive his right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. §44-1801, *et seq.* (the "Securities Act") with respect to this Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same (the "Order"). CRAWFORD admits the jurisdiction of the Arizona Corporation Commission ("Commission"); admits the Findings of Fact and Conclusions of Law contained in the Order for the purpose of this proceeding only; and consents to the entry of this Order by the Commission.

II.

FINDINGS OF FACT

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3 1. CRAWFORD, whose last known address is 1822 N. Barkley, Mesa, Arizona, was
4 an officer and director of Calumet Slag, Inc. ("Calumet") at different periods from 1994 until
5 approximately 1998. During much of this same period, Gareth N. Patton ("Patton") served as a
6 director and president of Calumet and Matthew E. Hunzinger ("Hunzinger") served as an
7 agent, officer and director of Calumet.

8 2. Patton and Hunzinger, the two above-referenced Calumet principals outside of
9 CRAWFORD, will collectively be referred to as "Calumet Representatives."

10 3. Calumet was first incorporated in Arizona in 1992. At the time of incorporation,
11 Calumet's sole asset consisted of a slag pile and cone located in South Dakota. Some time in
12 1993, Patton entered into an agreement with two individuals from J & D Asphalt of South Dakota
13 to process Calumet's slag pile. A dispute ensued, and the processing agreement broke down. In
14 response, the two individuals sued Calumet for breach of contract, seeking hundreds of thousands
15 of dollars in damages. In conjunction with the filing of this suit, these individuals placed a
16 mechanic's lien on Calumet's slag pile.

17 4. In 1994, CRAWFORD and the Calumet Representatives began offering and selling
18 Calumet securities to a range of investors. To attract these investors, CRAWFORD and the
19 Calumet Representatives represented that the company's principal asset, the slag pile located in
20 the Black Hills of South Dakota, contained high concentrations of valuable ores. CRAWFORD
21 and the Calumet Representatives supported this claim by referring to a series of "highly
22 encouraging" assay results obtained from the slag pile. By the close of 1999, CRAWFORD and
23 the Calumet Representatives had individually and collectively sold over 960,000 shares of
24 Calumet common stock to approximately 180 investors, and in doing so had raised approximately
25 five hundred and eighty thousand dollars (\$580,000).

26 ...

1 5. During offers and sales of Calumet stock, CRAWFORD did not disclose to certain
2 investors that a lawsuit against Calumet was pending. CRAWFORD also failed to disclose to
3 investors that the officers and directors of Calumet had little or no expertise in the
4 mining/reclamation industry, that Calumet was being assessed rental fees for having its asset
5 situated on Patton's property, or that the officers and directors of Calumet were accruing deferred
6 salaries from the company. Crawford has since agreed to forfeit any claims for deferred salaries
7 from Calumet Slag.

8 6. CRAWFORD also failed to inform investors about the risks to their investments or to
9 provide any written documentation about their investments.

10 7. In their continuing efforts to promote Calumet to investors, CRAWFORD and the
11 Calumet Representatives claimed that trial assays on the slag pile had indicated that the slag pile
12 would be worth millions of dollars when finally processed.

13 8. Beginning in 1994, the costs of Calumet shares to investors fluctuated from a low of
14 25¢ per share to a high of \$5 per share. In conjunction with these sales, CRAWFORD and the
15 Calumet Representatives told investors that their investment funds were going to be used for, and
16 were essential to, the advancement of the Calumet operation. In spite of these claims, investment
17 funds were used for the personal expenses of the officers and directors of Calumet. Of the funds
18 solicited for the Calumet project, CRAWFORD participated in the raising of approximately
19 \$400,000.

20 9. During a shareholder meeting in late 1994, the shareholders were told that an Arizona
21 mining company, Cyprus Amax Minerals ("Cyprus"), had expressed an interest in processing
22 Calumet's slag pile, and that the reclamation operation would likely be completed in
23 approximately three months.

24 10. A Cyprus field geologist did evaluate the Calumet slag pile and surrounding areas in
25 November of 1994. Following his examination, the geologist issued a report claiming that the
26 size, value and mineral potential of the slag pile and adjacent tailings dumps did not exist as

1 represented. The geologist specifically noted that the slag pile and dumps did not appear to have
2 any value with respect to their mineral contents.

3 11. On December 4, 1994, Cyprus' Exploration Manager sent Patton a letter concerning
4 the results of his company's evaluation of the three tailings dumps as well as Calumet's slag pile.
5 The Exploration Manager informed Patton that there were no significant values in gold or silver in
6 the dumps or in the slag pile. The Exploration Manager continued that Cyprus had no interest in
7 processing either the dumps or the slag pile.

8 12. CRAWFORD and the Calumet Representatives did not disclose to future investors
9 the evaluations and conclusions made by Cyprus with respect to the slag pile's precious metal
10 content or to Cyprus' lack of interest in pursuing the project.

11 13. At a Calumet sales presentation in 1996, CRAWFORD and the Calumet
12 Representatives told a prospective investor that recent assay reports on Calumet's slag translated
13 into a return of fifteen million dollars (\$15,000,000) for the gold alone, and that significant
14 additional amounts were recoverable for other precious metal extractions. In response to a
15 prospective investor's inquiries about Calumet's operations and liabilities, CRAWFORD and the
16 Calumet Representatives continued that, other than one nearly resolved lawsuit, there were no
17 ongoing claims, debts, leases, salaries or other expenses that might affect the value of the Calumet
18 investment.

19 14. Unrelated to Calumet's operations, the South Dakota Department of Environment and
20 Natural Resources conducted an independent trial assay on Calumet's slag pile in 1998 as part of
21 its routine inspections for hazardous waste sites. The assay results from this sample showed only
22 trace concentrations of precious metals.

23 15. To date, more than 960,000 shares of Calumet common stock have been sold to
24 approximately 180 investors. The majority of these shares were previously owned by Calumet or
25 by officers and directors other than CRAWFORD. Based on bank records, company documents,
26 correspondence, and investor questionnaires, CRAWFORD has raised or otherwise generated

1 approximately four hundred thousand dollars (\$400,000) from the sale of this Calumet stock.
2 Despite these figures, the only known asset currently in the possession of Calumet remains the
3 unprocessed slag pile located on Patton's property.

4 16. The project remains at a standstill, the exploration permit to move or process the slag
5 has expired, and none of the investors in the Calumet project have received any return on their
6 investments.

7 17. During the entire period referenced above, neither CRAWFORD nor the Calumet
8 securities were registered with the Securities Division in any capacity.

9 III.

10 CONCLUSIONS OF LAW

11 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
12 Arizona Constitution and the Securities Act.

13 2. CRAWFORD, as an officer and director of Calumet, offered or sold securities within
14 or from Arizona, within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

15 3. CRAWFORD, as an officer and director of Calumet, violated A.R.S. §44-1841 by
16 offering and selling securities that were not registered, not the subject of a notice filing, and not
17 exempt from registration.

18 4. CRAWFORD violated A.R.S. §44-1842 by offering or selling securities while not
19 registered as a dealer or salesman and while not having any applicable exemption from such
20 registration.

21 5. CRAWFORD, as an agent, officer and director of Calumet, violated A.R.S. § 44-
22 1991 by making untrue statements of material fact, or omitting to state any material fact
23 necessary in order to make the statements made, in the light of the circumstances under which
24 they were made, not misleading.

25 6. CRAWFORD'S conduct is grounds for a Cease & Desist Order to be issued pursuant
26 to A.R.S. §44-2032.

1 7. CRAWFORD'S conduct is grounds for an order of restitution to be provided pursuant
2 to A.R.S. §44-2032.

3 8. CRAWFORD'S conduct is grounds for administrative penalties to be assessed under
4 A.R.S. §44-2036.

5 **IV.**

6 **ORDER**

7 THEREFORE, on the basis of these Findings of Fact, Conclusions of Law, and
8 CRAWFORD'S consent to the entry of this Order, the Commission finds that the following relief
9 is appropriate, in the public interest, and necessary for the protection of investors:

10 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that CRAWFORD, his agents,
11 successors and assigns permanently Cease and Desist from violating the Securities Act in any
12 respect, including the following:

- 13 a) Offering to sell or selling unregistered securities within or from Arizona where no
14 exemption from registration applies;
- 15 b) Offering to sell or selling securities within or from Arizona without prior
16 registration as a dealer and/or salesperson where no exemption from registration
17 applies;
- 18 c) In connection with the offer to sell or sale of securities within or from Arizona,
19 making untrue statements of material fact, or omitting to state any material fact
20 necessary in order to make the statements made, in the light of the circumstances
21 under which they were made, not misleading.

22 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that CRAWFORD cooperate
23 with the Securities Division in any ongoing administrative proceedings against the other named
24 Respondents in this action.

25 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that CRAWFORD shall pay
26 restitution to investors as reflected on the records of the Commission in the amount of \$400,000.

1 This sum shall accrue additional interest at the rate of 10% per annum starting on the entry date
2 of this Order until the restitution amount is paid in full. Payment of this restitution amount shall
3 be made solely in the form of money orders or cashier's checks. Payment shall be made to the
4 State of Arizona to be placed in an interest-bearing account maintained and controlled by the
5 Arizona Attorney General. The Arizona Attorney General shall disburse the funds on a pro rata
6 basis to investors. If any disbursement check is not deliverable or does not clear the account
7 within 90 days from the date of issuance, the funds shall be redistributed to the known investors.

8 IT IS FURTHER ORDERED, pursuant to A.R.S. §44-2032, that the amount of restitution
9 ordered against CRAWFORD will be offset by any restitution payments duly made by other
10 respondents named in this matter.

11 IT IS FURTHER ORDERED, pursuant to A.R.S. §44-2036, that CRAWFORD shall pay
12 administrative penalties in the amount of \$15,000, payable to the State of Arizona. The payment
13 of these administrative penalties shall be subordinated to the payment of restitution as set forth
14 above. Should CRAWFORD default on the above-referenced restitution obligations, the entire
15 administrative penalty shall immediately become due and payable. Once the administrative
16 penalties become due and payable, any outstanding amounts will accrue interest at the rate of
17 10% per annum until paid in full. The administrative penalties shall be reduced to an amount of
18 \$7,500 if the above-referenced restitution obligations are paid in full.

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IT IS FURTHER ORDERED that should CRAWFORD violate any of the orders prescribed above, the Securities Division may vacate this consent order and reinstate legal proceedings against CRAWFORD.

IT IS FURTHER ORDERED that this Order shall become effective immediately

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2000.

BRIAN C. McNEIL
Executive Secretary

DISSENT

(JBP)

This document is available in alternative formats by contacting Cynthia Mercurio-Sandoval, ADA Coordinator, voice phone number 602/542-0838, E-mail csandoval@cc.state.az.us.

1 CONSENT TO ENTRY OF COMMISSION ORDER AND WAIVER OF HEARING

2 1. JEFFERY G. CRAWFORD, ("CRAWFORD"), an individual, admits to the jurisdiction
3 of the Commission over the subject matter of this proceeding. CRAWFORD acknowledges that
4 he has been fully advised of his right to a hearing to present evidence and call witnesses and
5 CRAWFORD knowingly and voluntarily waives any and all rights to a hearing before the
6 Commission and all other procedures otherwise available under Article 11 of the Securities Act
7 and Title 14 of the Arizona Administrative Code. CRAWFORD acknowledges that the Order to
8 Cease and Desist, Order for Restitution, Order for Administrative Penalties and Consent to Same
9 (the "Order") constitutes a valid final order duly rendered by the Commission.
10

11 2. CRAWFORD knowingly and voluntarily waives any right he may have under Article
12 12 of the Securities Act to judicial review by any court by way of suit, appeal or extraordinary
13 relief resulting from the entry of this Order.
14

15 3. CRAWFORD acknowledges and agrees that this Order is entered into freely and
16 voluntarily and that no promise was made or coercion used to induce CRAWFORD into entering
17 into this Consent.

18 4. CRAWFORD acknowledges that he has been represented by counsel in this matter, that
19 CRAWFORD has reviewed this Order with his attorney, and that CRAWFORD understands the
20 terms and conditions contained in the Order.

21 5. CRAWFORD admits the Findings of Fact and Conclusions of Law contained in this
22 Order for the purposes of this proceeding only. CRAWFORD further agrees that he will not
23 challenge the validity of these Findings and Conclusions in any future administrative
24 proceedings before the Commission in connection with this matter.
25

26 ...

1 6. CRAWFORD consents to the entry of this Order and agrees to be fully bound by its
2 terms and conditions.

3 7. CRAWFORD acknowledges that interest will continue to accrue on the unpaid balance
4 of the funds ordered to be paid, at the legal rate of interest pursuant to A.R.S. §44-1201(A), until
5 the amount is paid in full.

6 8. CRAWFORD acknowledges that any default under the payment terms of this Order
7 will render him liable to the Commission for the balance of the monies owed, for costs of
8 collection, and for interest at the maximum legal rate.

9 9. CRAWFORD acknowledges that this Order resolves only this administrative action
10 with the Commission and that nothing contained in this Order purports to resolve any other
11 issues which may exist between CRAWFORD and the state of Arizona. Nothing in this Order
12 shall be construed to restrict or preclude any other agency or officer of the State or its
13 subdivisions from initiating other civil or criminal proceedings against CRAWFORD, now or
14 in the future, that may be related to the matters addressed by this Order. Nothing in this Order
15 shall be construed to restrict the State's right in a future proceeding to bring an action against
16 CRAWFORD from or related to facts not set forth in this Order.

17 10. CRAWFORD acknowledges that he has been informed and understands that the
18 Commission or its designee, at the Commission's sole and exclusive discretion, may refer to this
19 matter, or any information or evidence gathered or derived in connection with this matter, to any
20 person or entity having appropriate administrative, civil or criminal jurisdiction. In connection
21 with the above, CRAWFORD acknowledges that no representations regarding the above have
22 been made to induce him to enter into this Order, and no promise or representation has been
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1 made by the Commission or its designee or staff with regard to any potential criminal liability or
 2 immunity from any potential criminal liability.

3 11. CRAWFORD states that as a part of the settlement reached herein, he will continue
 4 to cooperate with the Securities Division ("Division") in connection with this matter
 5 including, but not limited to, providing complete and accurate testimony at any hearing in this
 6 matter as may be requested by the Division, and cooperating with the Division regarding the
 7 allegations in the present matter and any other matters touching thereon.
 8

9 12. CRAWFORD agrees to forfeit any right, either in law or in equity, to any deferred
 10 salaries purportedly owed to him by Calumet Slag for any work or other services provided to the
 11 company.

12 13. CRAWFORD acknowledges and agrees that he will abstain from applying for
 13 registration as a dealer or securities salesman or from applying for licensure as an investment
 14 advisor or investment advisor representative in this state until such time that all restitution and
 15 administrative penalties have been paid in full.
 16

17 14. CRAWFORD consents to promptly adhere to any Division request for shareholder
 18 listings, investor records and/or other company financial documents in his possession pertaining
 19 to Calumet Slag.

20 Signed: Jeffery G. Crawford
 21 JEFFERY G. CRAWFORD

22 SUBSCRIBED AND SWORN TO BEFORE me, by Jeffery G. Crawford, this 6th day of
 23 September, 2000.

24 Nancy DeZemmer Keen
 25 NOTARY PUBLIC

26 My Commission Expires:

